AN EXPLORATION OF THE CHIEF EXECUTIVE OFFICERS’ (CEOs) PERCEPTION OF STRATEGIC MANAGEMENT PROCESS: THE CASE OF BRITISH HIGH TECH SMES

Dr. Azhdar Karami*

Abstract

The past decade of organizational research has moved from an investigation of organizational static to an investigation of organizational dynamics, much of it focused on strategy and its formulation and implementation. This research is an attempt to shed light on the business owner managers and Chief Executive Officers' (CEOs) perception of the importance of strategic management process in Small and Medium sized Enterprises (SMEs) in the UK. The data gathered from a sample of 132 CEOs of high tech firms and a combination of qualitative and quantitative research methods were employed for data analysis. In this research it has been found that firms which employ strategic management techniques, whether formal or informal, exhibit enhanced levels of success in formulation and implementation of business strategies than those firms which do not employ such procedures. Employing strategic management process in SMEs significantly helps in solving organizational problems, and reducing organizational conflicts. It significantly impacts on employees' satisfaction and changing organizational culture.

Keywords: CEO, strategic management, business strategy, SME sector

* Bangor Business School, School for Business and Regional Development, University of Wales Bangor Gwynedd LL57 2DG, UK
Tel: +44 (0)1248 388350, Fax: +44 (0)1248 383228, E. mail: a.karami@bangor.ac.uk

Research Background

Research into strategy formulation and implementation particularly in small and medium-sized enterprises (SMEs) has become one of the main focuses of academia and industry (Watts and Ormsby, 1990; Boyd, 1991; Berry, 1998; Hitt and Irland, 2000; Beal, 2000; Krishnan, 2001; Karami and Analoui, 2003). This is because, with the accelerating dynamics of competition, the key role of SMEs in generating employment, promoting innovation, creating competition and generating economic wealth (Smith, 1998; Bridge and Peel, 1999). Before reviewing the core research background related to strategic management in Small and medium sized enterprises, it is necessary to clarify the term because of the troublesome intellectual terrain that strategy in management occupies.

The word strategy has long been used implicitly in different ways (Bowman and Kakabadse, 1997; Mintzberg and Quinn, 1998). The term strategy has been conceptualized in diverse forms according to the parent social science discipline of numerous authors (Andrews, 1986; Ansoff and McDonnel, 1990; Mintzberg, 1994; Porter, 1998; Marsh, 1999). Strategy as an area of management that is concerned with the general direction and long-term policy of the business as distinct from short-term tactics and day to day operations. One early definition of strategy was provided by the American business historian, Alfred D. Chandler (1962), who suggested: ‘strategy is the determination of the basic long term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources for carrying out those goals’ (1962, p.13). Recently, Mintzberg and Quinn (1998) identified interrelated definitions of strategy as: plan, pattern, position, and perspective. Strategic management is fundamentally about setting the underpinning aims of an organization, choosing the most appropri-
ate goals towards those aims, and fulfilling both over time (Thompson, 1996). David (1995) holds that strategic management can be defined as the art and science of formulating, implementing, and evaluating cross-functional decisions that enable an organization to achieve its objectives. As this definition implies, strategic management focuses on integrating managerial abilities and techniques to achieve organizational success.

The dominant paradigm in strategic management is a prescriptive, rational and analytic model characterized by two principles functions: strategy formulation and implementation. The major contributors to this approach are Andrews (1986), Ansoff (1965) Porter (1979, 1980, 1985), from a troika of popular strategic thought at Harvard University. Strategic management is about how the strategy is developed and implemented (Cole, 1994). Strategy formulation is how the firm chooses to define strategy and how it approaches implementation through strategic management (Collin, 1995; Bowman, 1998). The approach to strategy formulation will dictate the eventual management style. The nature of the strategy formulation will therefore result in the adoption of a specific approach to strategic management. Only after a firm has determined how it will formulate strategy can the path of strategic management be undertaken. The development of a strategy can be formal or rational (Mintzberge, 1994), emergent or progressed (Whittington, 1993), under a logical incremental path. Strategic management handles how a strategy is developed and where the organization’s environment is analyzed before the appropriate strategy is selected and implemented (Hambrick, 1983; Thompson, 1996; Wheelen and Hunger, 1998). Even though some have concluded that small firms do not commonly practice strategic management (Gable and Topol, 1987), there have been several studies that have found a positive relationship between strategic planning and performance in these companies. For example, Robinson et al. (1986) found that small businesses that employed consultants to help with strategic planning performed better than firms that did not. It has been discussed that small electronics firms that engaged in sophisticated strategic planning performed better than unstructured planners. Several other studies have reported positive relationships between formal strategic planning and financial performance in small firms (Jones, 1982; Ackelsberg and Arlow, 1985; Sexton and Van Auken, 1985; Watts and Ormsby, 1990). Still others have reported positive relationships among various measures of strategy content and small firm performance (Miller and Toulouse, 1986). Proponents of strategic management in the SMEs have suggested that the type of planning employed will be contingent upon its stage of development and that this activity will evolve and become more formal and sophisticated over the life cycle of the business (Scott and Bruce, 1987). The literature suggests that as the activities and supporting functional areas of the organizations become more complex, strategic management will develop through various stages from its initial beginnings as simple financial plans and budgets, through to forecast-based planning, externally oriented planning where the managers begin to think strategically, proactively planning the firm’s future and formal strategic management techniques (Goodwin and Hodgett, 1991; Foster, 1993; Berry, 1998; Beal 2000; Apfelthaler, 2000). It is often argued that the managers must make this necessary progression toward a strategic orientation and more sophisticated strategic management techniques as the business growth in order to ensure the future survival and long term success of the company (Stone, 1999; Hitt and Irland, 2000; Wolff, 2000).

Finally it is important to recognize that in studying strategic management practice in small and medium size firms, the role of entrepreneur is critical (McGrath and McMillan, 2000; Meyer and Heppard, 2000). In business, preparation comes through strategic planning (Schwenk and Shrader, 1993; Hoskisson, 2000). Many owners and managers of small and medium enterprises routinely plan their day-to-day operations, but do not believe that strategic planning applies to them. However, it has been discussed that, no businesses are too small to require a sound strategy, and few strategies are so simple that they need not be developed into a strategic plan (Robinson and Pearce, 2001). The entrepreneur’s personal goals, characteristics and strategic awareness all significantly impact on the development of the business (Story, 1994; McKenna, 1996; Hoskisson, 2000). Previous studies have already shown that whether or not an effective strategy development process is implemented will be heavily influenced by the firm’s owner manager and that the ability to comprehend and make appropriate use of sophisticated strategic management practice is a function of the entrepreneur’s previous experience (Robinson et al, 1986; McKenna, 1996; Berry, 1998; Chan and Foster, 2000; Karami and Analoui, 2003).

Scope of the Study

As it has been noted earlier the purpose of this study is to explore the CEOs’ perception of importance of strategic management in SME sector. CEOs and business owner managers are considered as unit of analysis. Generally speaking combinations of qualitative and quantitative research methodology were applied. The sample has been drawn from the 508 small and medium size manufacturing enterprises in electronic industry in the UK. The companies were identified using the UK Standard Industrial Classification (SIC) based on two criteria: a) having less than 250 employees, and b) having less than £50 million turnover in the last financial year. These two criteria have been used widely in literature in defining the SME (Smith, 1998; Chan and Foster, 2001;
Karami and Analoui, 2003). The main research instrument was mail questionnaire. However a subsample of 12 managing directors has been interviewed. Data were collected via mail surveys from 132 (for a 27% response rate) CEOs of the SMEs of electronic manufacturing industry in the UK. A personalized cover letter that explained the purpose of the study and provided assurances regarding the confidentiality of collected data accompanied each questionnaire. Managing directors were urged to personally participate in the survey. In order to minimize response bias, the participants were also provided with pre-addressed envelopes to enable them to return the completed questionnaires directly to the researcher. For the purpose of this study, CEOs and business owner managers’ perception of the strategic management process in the studied firms were analyzed. CEOs of the firms were asked to indicate if a systematic approach to strategic management have been established or not their firms. Moreover managers were further asked to indicate how effectively they believed that, the formal strategic management impacts on firm performance. In this research the company performance variable was measured by self-reported ratings of the respondents concerning the indicators of achievement of the intended outcomes, financial performance, and implementation of plans within the expected time and predicted cost. A 5 point Likert type scale ranging from 1 (low extent of success) to 5 (high extent of success) was applied. This self-reporting rating of performance is widely used in SMEs strategy research (Gable and Topol, 1987; Smith, 1998; Rangone, 1999).

**Major Findings and Discussion**

**Importance of Strategic Management Approach in the Studied Firms**

In developing the conceptual framework of the research, a question has been developed whether or not strategic management is important in SMEs. As discussed in literature review, proponents of strategic management in the SMEs consider strategic management approach as an important factor in increasing firm performance. They (e.g. see Scott and Bruce, 1987; Berry, 1998) concluded that, the strategic management approach employed will evolve and become more formal and sophisticated over the life cycle of the business. In contrast some other writers (Shuman et al, 1985; Curran, 1996) believe that, small business, because of their size, nature of activities, and entrepreneurship, cannot benefit from strategic management approach, which focus on formal strategy formulation and implementation. They emphasized on informal planning in SMEs. In this research it has been found that CEO’s of high tech SMEs considered strategic approach as an effective factor in increasing firm performance. The respondents were asked to indicate whether or not a systematic approach has been developed within their company. The data analysis shows that, majority of the studied firms (N = 96, 74%) have established a strategic management system in their organizations. Therefore significant proportions of SMEs regard strategic management as important. But, there was a significant association (γ = 0.456, p < 0.01) between establishment of strategic management approach within the firm and life cycle of the firms. As the firms have grown, the strategic management processes utilized have become formal and explicit. Generally speaking, SMEs do employ strategic management procedures, however, the majority of SMEs tend to rely on informal methods of strategic management in the early stages of their life cycle. Regarding the strategy formulation, it has been found that, strategic planning activities tended to be primarily concerned with the short run and operationally oriented. These findings are very close to the findings of Berry, (1998) in strategic planning in high tech firms, who reported that, small high tech firms do employ strategic management. In the next section the nature of strategic management approach on organizational variables will be discussed.

**Nature of Strategic Planning Practices**

Strategy its formulation or creation, and implementation are recognized as key aspects of the management of large organizations (Ansof, 1984). As noted in literature review small and medium-sized enterprises are urged to perform business, strategic, and succession planning for their survival (Bridge and Peal, 1999; Chan and Foster, 2001). However, most of the research on SMEs business planning focuses on succession planning rather than on business or strategic planning (Handler 1994; Upton and Heck 1997). The question has been raised that whether or not CEOs in studied firms employ strategic planning process. Consequently if they do so, what is the nature of such strategic planning activity in small and medium sized enterprises? Some authors are skeptical of the existence of clearly visible strategic planning in many small business settings (e.g. Curran (1996). In practice, some small business owner managers may simply keep doing what they have done of late, assume market conditions will continue much as before and hope for the best. The skeptics may see this as an absence of strategy. Despite some research into the relative success of pursuing active policies of formal strategic planning or strategy formulation, for summaries of such studies, there has been relatively little study of the situation in small businesses. Available research suggests that while SMEs should perform strategic and business planning, most do not (Brown 1995; Rue and Ibrahim 1996). Recently in a national survey of 614 small businesses, found that 58 percent of those businesses had no written business plan. In a 1997
In a survey of 3,033 small businesses (Andersen and Mutal, 1997) it has been discovered that 69 percent had no written strategic plan. In this study, referring to the descriptive analysis of the data, it has been found that, majority (83%) of studied firms employ planning activities. However, the nature of employed planning activities varies from basic financial planning to formal strategic planning activities. This result supports the findings of Rue and Ibrahim (1996) who noted that SMEs engage in more planning than previously thought, with over half of their sample reporting written long-range plans, and 97 percent reporting some specific plans related to growth. Ward (1997) also concludes that SMEs may not plan if the founder is fixated on a previously successful strategy. Apart from these two researchers, the findings of this study are very similar to the finding of the recent study (Berry, 1998) that reported that, successful SMEs do employ strategic planning. The result of this research confirms the findings of Goodwin and Hodgett (1991) who concluded that, strategic planning brings major benefits to the companies that use it. However, many medium size companies confuse it with long-term budgeting and miss out on its benefits. They found in their study of examining the planning practices of 300 medium size companies in Australia revealed that over 86% of all companies responding do prepare a strategic plan. In this study, an attempt has been made to identify the type of planning activities, and planning characteristics employed by the studied firms. Based on the finding of the study, the studied small and medium sized enterprises can be categorized in to four groups (See Table I) in terms of employing strategic planning. The first group includes the firms which do not involve in planning activities (17%). In these firms, no planning activities reported. Accordingly, no mission, and objectives either short term or long term are developed.

Second the firms, which employ financial planning (21%). In this group, respondents rated formal financial planning as essential activities. CEOs stress importance of tight financial controls and performance. It also has been found that, the firms develop short-term (up to one year) to medium term (up to 2 years) financial objectives. The firms in this group were not engaged in strategic planning. Third group includes formal financial and informal strategic planners (38%). Respondents in this group, believed to importance of informal strategic planning. While financial planning and performance tightly controlled and monitored. The firms have had mission statement and long-term financial objectives specified over a two to five years planning horizon. In this group of the studied firms, mission statement, objectives and business strategies are not formalized in a business plan but clearly communicated and known throughout the firms. Finally the fourth group of the firms can be categorized as formal strategic planners (32%). In this group management stressed the importance of formal and explicit strategy formulation process, written mission statement and long term objectives over two to five years planning horizon.

<table>
<thead>
<tr>
<th>Planning level</th>
<th>Planning Characteristics:</th>
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<tbody>
<tr>
<td>Non Planning (17%)</td>
<td>No mission statement, No long term objectives</td>
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<td></td>
<td>Less stress on short term objectives, No formal or informal business plan</td>
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<td></td>
<td>Firm size: less than 10 employees</td>
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<td></td>
<td>Top management is not experienced but technically qualified</td>
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<thead>
<tr>
<th>Financial Planning (21%)</th>
<th>Planning Characteristics:</th>
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<tbody>
<tr>
<td>Emphasis on short to medium term 1 up to 2 years financial objectives</td>
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<tr>
<td>Stress on financial controls, Strategic planning is not important</td>
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<tr>
<td>Review the financial performance every one to three months</td>
<td></td>
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<tr>
<td>Firm size: Less than 100 employees</td>
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<tr>
<td>Top management: may have some experiences but technically qualified, in some cases management training</td>
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</table>

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<thead>
<tr>
<th>Formal financial and informal strategic planning (38%)</th>
<th>Planning Characteristics:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on long term (2 to 5 years) financial objectives</td>
<td></td>
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<tr>
<td>Stress on importance of strategic planning</td>
<td></td>
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<tr>
<td>Informal mission statement, Informal strategic objectives</td>
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<tr>
<td>Firm size: 100 to 200 employees</td>
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<tr>
<td>Top management: have previous general management experiences, technically qualified, have had management training,</td>
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<tr>
<th>Formal strategic planning (32%)</th>
<th>Planning Characteristics:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Emphasis on long term objectives in relation to products or markets, Written mission statement, Stress on importance of formal strategic planning, Reviewing strategic plans every six months or one year, Firm size: 200 to 250 employees</td>
<td></td>
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<tr>
<td>Top management: have wide range of previous general management experiences, Multi-disciplinary (marketing, technology, financial, strategic) management team</td>
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Formal and written strategic plan produced and reviewed on a six monthly or annual bases. In these firms, formal strategic business plans are developed reflecting management perception that significant benefit will arise for the company. The relationship between employing strategic management approach and some of the selected organizational factors will be discussed in the next sections.

**Strategic Management Approach and Organizational Factors**

In order to see the impact of strategic management approach on organizational variables within the studied firms, the respondents were asked to rate its impact on the research variables such as adapting with environmental changes, operational decision making, developing and implementing business plans etc. The result of T-test has been illustrated in Table II.

<table>
<thead>
<tr>
<th>Variable</th>
<th>t-statistics</th>
<th>P-value</th>
<th>Association</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adapting with environmental changes</td>
<td>36.659</td>
<td>P&lt;0.01</td>
<td>Significant</td>
</tr>
<tr>
<td>Operational decision making</td>
<td>34.903</td>
<td>P&lt;0.05</td>
<td>Significant</td>
</tr>
<tr>
<td>Developing business plans</td>
<td>39.782</td>
<td>P&lt;0.01</td>
<td>Significant</td>
</tr>
<tr>
<td>Implementing business plans</td>
<td>40.943</td>
<td>P&lt;0.01</td>
<td>Significant</td>
</tr>
<tr>
<td>Quality of product or services</td>
<td>18.695</td>
<td>P&lt;0.05</td>
<td>Significant</td>
</tr>
<tr>
<td>Solving organizational problems</td>
<td>19.860</td>
<td>P&lt;0.01</td>
<td>Significant</td>
</tr>
<tr>
<td>Employees satisfaction</td>
<td>39.590</td>
<td>P&lt;0.05</td>
<td>Significant</td>
</tr>
<tr>
<td>Changing organizational culture</td>
<td>18.804</td>
<td>P&lt;0.01</td>
<td>Significant</td>
</tr>
<tr>
<td>Reducing organizational conflict</td>
<td>21.138</td>
<td>P&lt;0.05</td>
<td>Significant</td>
</tr>
<tr>
<td>Firm’s profitability</td>
<td>39.661</td>
<td>P&lt;0.01</td>
<td>Significant</td>
</tr>
<tr>
<td>Achieving organizational objectives</td>
<td>39.774</td>
<td>P&lt;0.01</td>
<td>Significant</td>
</tr>
<tr>
<td>Organizational effectiveness</td>
<td>38.873</td>
<td>P&lt;0.01</td>
<td>significant</td>
</tr>
</tbody>
</table>

*H₀: Mean Importance Rating ≥ 3, H₁: Mean Importance Rating < 3, (Scale: 1 = Low; 3 = Average; 5 = High)*

Strategic decision-making is an important part of managing the direction of an organization and measuring its success (Waring, 2001). The recent works focus on the development of the strategic decision making as a management tool, and explores various analytical techniques to measure the performance of an organization.

The development of such a model requires more effective use of strategic management approach in small businesses. In this research, the result of data analysis reveals that, establishing strategic management approach, significantly (t(128) = 34.903, P<0.05) impacts on the operational decision making in studied firms.

Regarding the developing and implementation of business plans, it has been discussed that, enterprise strategy provides an accepted theoretical framework for integrating the moral responsibilities of organizations into their strategy formulation and implementation processes (Stead, 2000). Recently, the concept of integrated strategy, developed by Breene and Supron (See Copacino, 1999), has gained attention. Integrated strategy draws on the collection of analytic frameworks described above, while also emphasizing both strategic positioning and superior execution capabilities.

Most significantly, integrated strategy has created a doctrine or set of principles to guide the processes of strategy formulation and implementation. Some recent researches (Hoskisson, 2000; Saxena, 2000; Karami and Analoui, 2002) reveal some major shortcomings in the way managers are approaching strategy formulation and implementation. In this research, the findings of the data analysis illustrates a significant impact of establishing a strategic management approach on developing business plans (t (128) = 39.782, P < 0.01), and implementing business plans (t (124) = 40.943, P < 0.01) in studied firms. These findings are similar to the findings of Copacino (1999) who discussed that, senior managers widely recognize the importance of strategic management nowadays, and no wonder, if they are to cope with sweeping forces of change, then institutions must fashion strategic planning into a powerful
tool. They must leverage organisational resources and build new competencies, all in a way that capitalize on emerging opportunities and contends with competitive threats.

Generally speaking, we are witness of emphasizing on the importance of developing strategic orientation as well as simple strategic planning by chief executive officers (CEOs) and top management team in the organisations. For instance Peter Duncan Vice President of the centre for Simplified Strategic Planning INC, in his recent work (Duncan, 2001) indicates that:

“In time of great changes, great vision and plans are needed. So how do we create great vision and plans to soar to new heights? It all comes down to having a concept—an idea that a business can pursue. By some means, you identify a real need in the market not a whim or wish, but something that will deliver real value (where the customer’s perception of return is greater than their cost). And from that simple concept, you build a vision of what you need to put in place to deliver that market need better than anyone else”. (Peter Duncan Vice-President of The Centre for Simplified Strategic Planning Inc).

The other interesting finding of this research is the significant impact of establishment of strategic management approach on internal environmental variables of the studied firms.

For instance CEOs believed that, using strategic management process in SMEs significantly helps in solving organizational problems (t (129) = 19.860, P < 0.01), and reducing organizational conflict (t (128) = 21.138, P < 0.05). Strategy as a unified plan (Mintzberg, 1994) integrates all of the parts of the firm together and links the subsections of the firm to each other effectively. Based on the findings of the data analysis, the respondents believe that, strategic management approach significantly impacts on employees’ satisfaction (t (129) = 39.590, P < 0.05), and changing organizational culture (t (126) = 18.804, P < 0.01).

These findings support the findings of Ahls (2001). He concludes that, just as vision and strategy are important to a company as a whole, they are essential to a change effort. By definition, change represents something different from what employees are accustomed to; therefore a clear, well communicated vision and a path to achieve the change are needed. Asking employees to change must be paired with giving them the tools to achieve it and removing all block roads.

Careful strategic planning will ensure that all aspects of the firm have been accounted for and that unexpected obstacles will be avoided or minimized (Ahls, 2001). Finally, the impact of employing strategic management on firm performance is the subject that has been investigated in this research. The findings of the data analysis support the significant impact of strategic management approach on overall firm performance.

In this regard CEOs believed that, employing strategic management procedures in the studied firms significantly impacts on quality of product or services (t (131) = 18.69, P < 0.05), achieving organizational objectives (t (128) = 39.774, P < 0.01), firm profitability (t (130) = 39.661, P < 0.01), and overall organizational effectiveness (t (128) = 38.873, P < 0.01). Generally speaking, these findings are similar to the findings of previous researches (e.g., Handler, 1994; Berry, 1998; Chan and Foster, 2001). To sum up, it can be concluded that, the success of SMEs depends in large part on the formulation and implementation of strategy.

Conclusion and Practical Implication

In this paper an effort has been made to shed light on the strategic management in small and medium high tech firms. In light of analysis of the business owner managers and CEO’s perception of the importance of strategic management in studied SMEs it is concluded that a significant proportion of the studied SMEs regarded strategic management tools as important factors for surviving and developing the core competences in the turbulent environment. The studied firms in terms of employing different types of planning can be categorized into four groups including: non-planners, financial planners, formal financial and informal strategic planners, and formal strategic planners. Successful SMEs in electrical and electronic industry use strategic management process, however during the early stages of the firm’s lifecycle, adapted strategic management approach is likely to be informal.

This informal approach enables the SMEs in responding quickly to the market demand. The companies, which have established a strategic management approach, are more adaptable with the environmental factors such as technological changes. The firms which employ strategic management techniques whether formal or informal, exhibit enhanced levels of success in formulation and implementation of business strategies than those firms which do not employ such procedures. Employing strategic management process in SMEs significantly helps in solving organizational problems, and reducing organizational conflicts. It significantly impacts on employees’ satisfaction and changing organizational culture.

Finally CEOs of the studied firms perceived strategic management approach as an important factor in increasing quality of product or services, achieving organizational objectives, increasing firm profitability, and overall organizational effectiveness.
References